RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 2, 1997 **LETTER 1229**

June 20 DJIA 7796.51; PTI 4937; A-D Ratio +6.91
June 27 DJIA 7687.72; PTI 4935; A-D Ratio +6.90
Dow Yield: 1.67%; Dow Price/Earnings: 20.3
Dow 144-day MA: 6931; Dow 34-day MA: 7479
Dow Times Book Value: 5.74; PTI 89-day MA: 4856
Percentage of Undervalued Blue-chips: 5%
Gold 144-day MA: 362

THE MARKET: The market, April through mid-June, experienced one of the most powerful rallies in recent history. As a rule, such power moves seldom end with a rise. Normally, when a power move finally ends, the market will back-and-fill, perhaps decline somewhat, but in reality it is usually building strength for the next upside assault.

In other words, primary bull markets don't normally end with a power move to the upside. They do tend to end with ebbing volume, non-confirmations, declining momentum, and general exhaustion of buying power.

So saying, what we would "normally" expect now would be a half-hearted halt to upside momentum, an easing of breadth -- a market that remains firm, but at the same time one that is building internal strength for the next rise.

That's the **normal** expectation. However, it's well to remember that this is **not a normal market**, it's a market that is extremely extended (yes, even taking into account the June 23 panic-decline) and one that offers **next to nothing in the way of dividend income.** Therefore, I have no preconceived notions regarding this stock market's next major move. As I said, based on past case histories, we know that powerful rallies tend to end in an "overbought condition," but after working off the overbought, the market will again take off on the upside.

But here's what I really think. This bull market has broken almost every rule and every historical precedent in its ride skyward. **Therefore, at this point I want to make it clear that I distrust the "normal" rules, and I trust only one item -- MARKET ACTION.**

Consider the following: *Market Vane's* survey of futures traders' sentiment recently moved to 80% bullish, the highest level in a decade. All market trendlines are still bullishly intact. The public continues to be extremely bullish, and cash moving into mutual funds is at the flood stage. Formerly outspoken bears (watch CNBC) have either been quieted or have switched to the bull side.

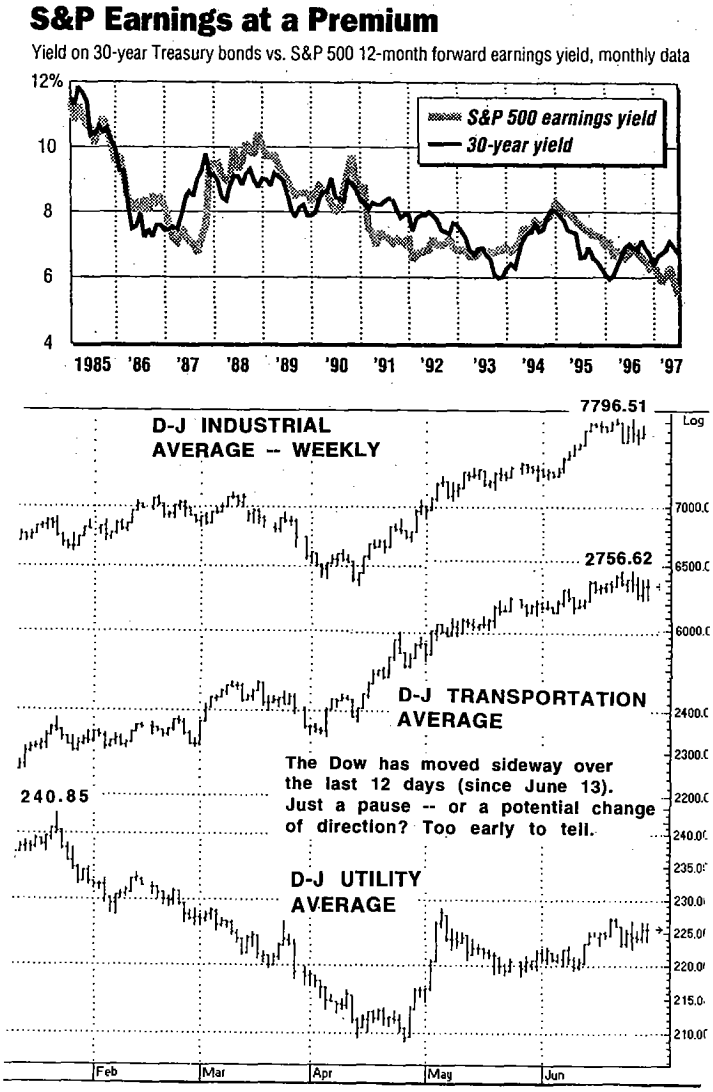
Therefore, I'm **guided more than ever by my Primary Trend Index.** When there's a change, the PTI will show it. The PTI has a remarkable proclivity to **move in trends.** Note (page 2 chart) how, during the February to April market weakness, the PTI stubbornly refused to break below a horizontal support line. Then notice how the PTI has climbed perfectly up a rising trendline that started in early-May. I will consider it EXTREMELY IMPORTANT if this rising trendline is violated.

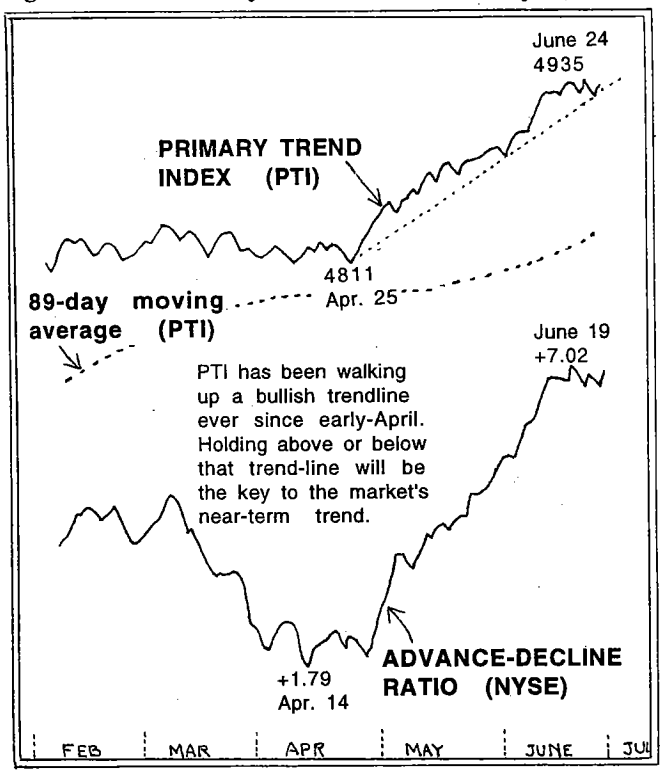
The most extended market overvaluation in history has failed to halt this bull market. So how will it end? It will end as supply overcomes demand and the end will be signaled when the MAJORITY of the eight indicators (of which the PTI is composed) turns down on a trend basis.

Those Values Again: I'm almost embarrassed to bring up the subject of values again, but consider this: the dividend on the Dow is currently 128.33. At the June 20 high of 7796, the Dow was selling at **61 times dividends.** Historically, any time the Dow has sold at 32 times dividends, it was in a top area. At 61 times dividends, the Dow is far beyond a top area -- frankly, in an area that nobody has ever seen before.

Furthermore, the Dow has never before been priced at **20.6 times record earnings.** But that's where we are now, and all I can say is that the whole performance is one for the Wall Street history books.

A **test of values** that almost every serious investor monitors is the S&P forward earnings yield (earnings divided by price) compared with the current yield on the 30-year government bond. The article in the June 19 *WSJ* by Roger Lowenstein (he periodically updates this study) starts out, "Don't kid yourself about new paradigms . . . the stock market is high . . . if you buy the stock market as a whole, and everyone who owns an S&P index does, it's an expensive time to get in." He explains further,





"The earnings yield on the S&P 500 is a scant 5.48%, more than a percentage point less than the bond yield of 6.68%." At any rate, the page 1 chart shows the picture, with the negative spread clearly visible (the S&P earnings yield is well below the bond yield).

Dow Divisor: The stock of DuPont split two weeks ago, and Caterpillar will split next month. With the DD split, the divisor for the Dow declined to 0.2763. This means (gulp) that for every one point on a Dow stock will change the Dow by a whopping 3.61 points. Or to put it another way, if on a given day every one of the 30 Dow Industrials advances just one point, the Dow will rise 108 points for the day. Or on a given day, if 29 Dow Industrials are unchanged and GE advances by 5 points, the Dow will be up 18.05 points. Talk about volatility!

Predictions: As a bull market extends, analysts "get with it" and offer rationales for the move -- and predictions become bolder. Joe Granville says Dow 10-12000 within a few years. Ralph Acompura of Prudential says Dow 10000 by next June and Dow 18500 in nine years. Not to be left out, economist Ed Yardini says Dow 15000 by 2005. Spoilsport Richard Russell says that neither the duration nor the extent of a bull or bear market can be predicted in advance -- mmm, just watch the PTI.

LOOKING AHEAD: In the last Letter I wrote that the area of my work that I find most fascinating is the one that deals with **change.** Change is probably the most difficult phenomenon for people to envision, but as Charles Dow stated, "the one fact pertaining to all conditions is that they will change."

Right now, the idea of owning common stocks is deeply imbedded in the American psyche. Literally nobody doubts the wisdom and benefits of "owning stocks for the long term." It has taken almost two decades for Americans to fully accept the "cult of equity" (it began in 1974); it has also taken the greatest and longest bull market in history to do it. But it has happened, as notes this article from the June 17 *Los Angeles Times.*

From its bear market low of Dow 577 struck in late-1974, the Dow has climbed over 1200% to last week's high of just below 7800. In 15 years (since 1982), the Dow has never closed below the low of a preceding year, a performance unmatched in stock market history. On top of that, the Dow has not been subject to a correction of 10% (on a closing basis) in seven years, a performance never seen before in Wall Street history.

Putting Your Future in Stocks

DIVERSIFICATION 101

By KATHY M. KRISTOF

1. How to be diversified
2. How to have a strong safety net
3. How to protect against inflation
4. How to use fixed-income investments
5. How to use growth investments
6. How to put it all together

investing.

Let's say you want to buy a house in five years and you're trying to determine where to invest what you've been accumulating for a down payment. The stock market would be a good place for all or part of that money as long as you wouldn't be crushed if your home-buying plans had to be put off because of a stock market slump that depressed the value of your investments and thus reduced the amount you had intended for the down payment.

Stocks are also ideal for a retirement portfolio. The younger and further from retirement you are, gives you the benefit of diversification, reducing the risk that your stock portfolio will be savaged by a single bad stock. Although they are affected by the same forces that affect the market as a whole, many funds are managed to take advantage of upward trends or to protect investors against bear markets.

Most stock investors will want to hold some foreign equities. Just as U.S. companies issue ownership interests in the form of stock, so do companies abroad.

The risks and rewards of foreign stock markets are similar to those

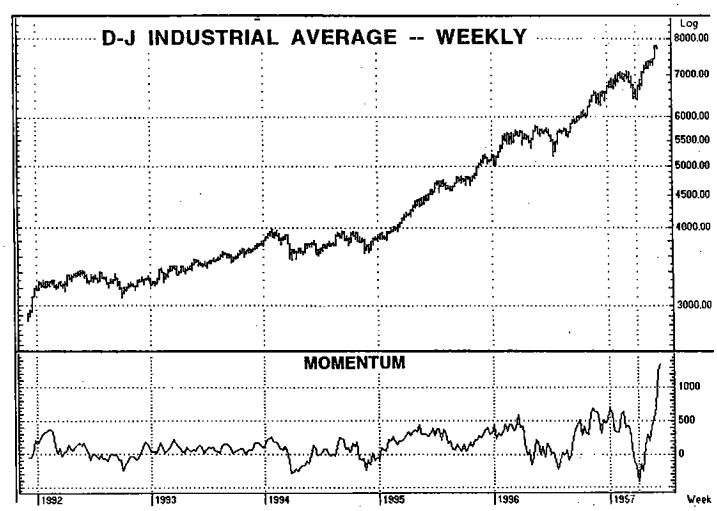
Perhaps responding to this unprecedented performance, the public has swarmed into the market in astounding numbers, most by way of the over 5,000 mutual funds now being offered. If the business of Wall Street is to distribute stocks to the public, there is no doubt that Wall Street has done a fantastic job over the last two decades.

The question that I am now wrestling with is this -- in view of the above, is the great upward cycle which started in 1974 in the process, in the very early and subtle process, of reversing? To put it another way, are there any hints, any hints at all, that the great bull market is close to "discounting the best that lies ahead?"

As an aid in my attempt to answer this question, I am including a number of long-term **weekly** charts. Each of these charts is worth studying closely.

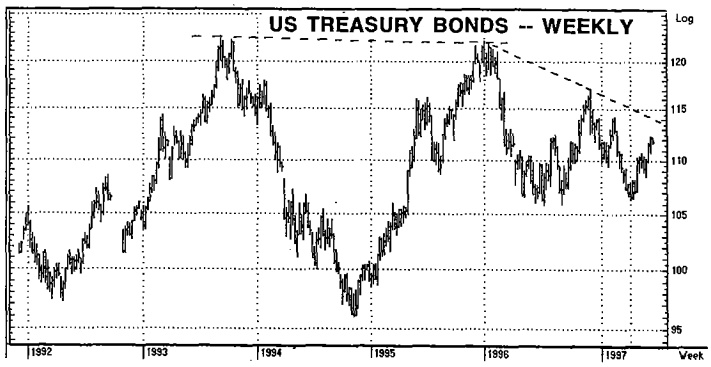
Let's start with the **Dow.** Here we see the Dow climbing from its 1992 level of below 3000 to its recent high of 7796. Nowhere on this chart do we see the Dow correcting (closing basis) by as much as 10%, an unprecedented performance.

At the bottom of the chart we see the Dow's 10-week rate-of-change (momentum). What interests me here is the 1997 spike in momentum. As a rule, this kind of momentum spike occurs off a major bottom. But here we see a momentum spike coming following a huge uncorrected rise. This makes me wonder whether this could be a terminal "blow-off" rather than a new power move leading to much higher prices. I can't remember seeing another such momentum spike coming off the top of a major advance.

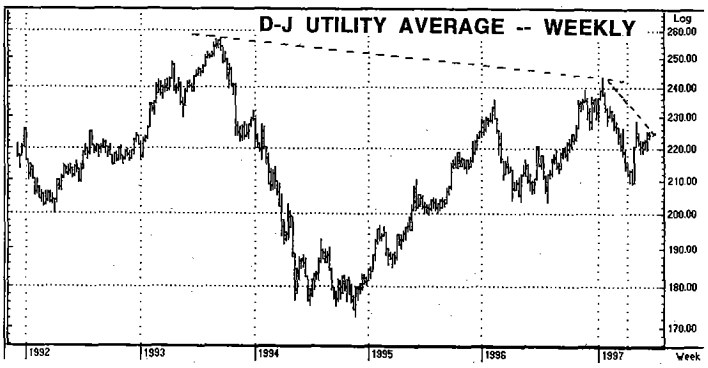


The second chart is equally critical, and it is one that most investors are not aware of. Here we see the **Treasury bonds** hitting a high of 121 in September of 1993. Next, a long plunge to just above 95 in late-1994, then a second advance to 120 in January of 1996 -- forming a "double top." Finally, and this is important, a series of **declining tops from 1995 to the present.**

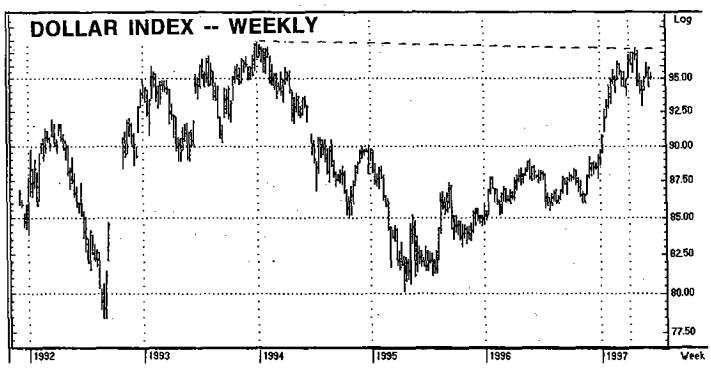
My reading of this chart is that the low for interest rates was seen in late 1995 -- and the longer term trend of rates is now UP. If so, this will put gradual pressure on the stock market. Furthermore, if we are to see another bull leg on this market, I believe it will be considerably less explosive than what we have seen so far in '97.



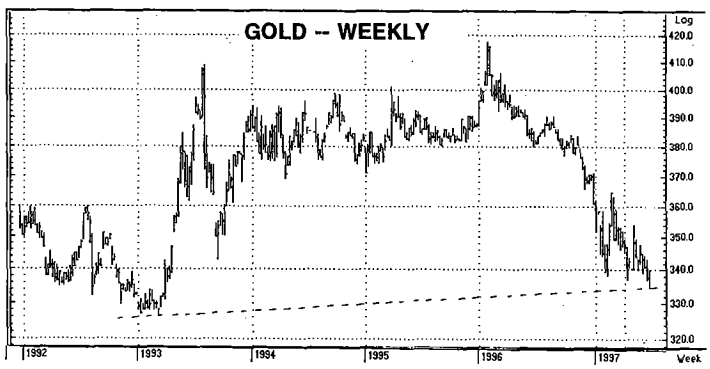
Nobody talks about the **Utility Average**, but it's worth noting that this Average topped out back in 1993. Perhaps more important, the Utility Average hit a high of 240.85 on January 22, 1997 and it has not been back there since.



Next, let's turn to the **Dollar Index**. This chart suggests (as with the bonds) a "double top" in the 96 area. The recent high for the Dollar Index was recorded on April 30 at 96.77, while the low was hit on May 20 at 92.65. Either way the Index breaks from here will be highly significant. The Dollar Index has taken on a "toppy" appearance, and it must remain above 92.65 to remain bullish.

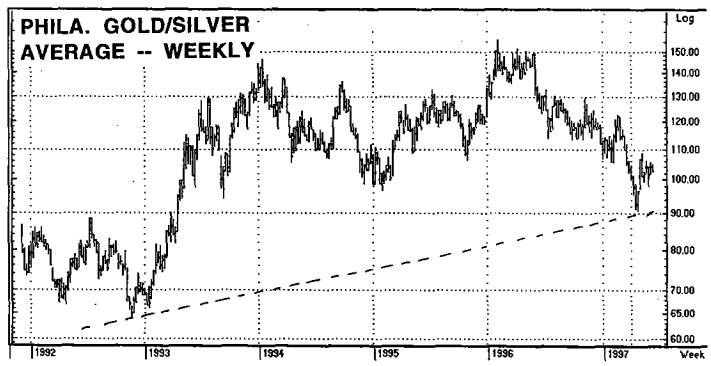


In opposition to the Dow, bonds and the Dollar Index we have **gold**, which has been in the dumps ever since 1980. Seventeen years is a long time for any tradable item to be unloved, and gold is certainly unloved. So here we are in 1997 -- people love fiat (paper) money, and they hate real money, gold.



But could change be in the wind? If it is, it's very, very subtle. Consider this, in March 1993 gold declined to 328, but at its recent low struck on June 5, 1997 the June futures hit an extreme intra-day low of 339, only to close at 343. So I wonder, with gold refusing to break below its low of four years ago is gold forming a bottom?

Then I turn to the **Phila. Gold/Silver Index**, and here we see a better picture than gold, the metal. The low of 1997 is considerably higher than the low of late-1992. Here again I have to wonder whether the "hated" gold shares are now tracing out a long-term bottom.



So these are the items I am watching, and I'm wondering whether they are the early forerunners of a major change. (1) We have extreme public optimism towards stocks and the economy. (2) We have the Dow in a spectacular, yet uncorrected, bull market. (3) We have bonds and utilities in what could be long-term topping processes. (4) We have the same conditions for the US dollar. (5) Finally, we have a few very subtle but "iffy" hints of a reversal to the upside in gold and gold shares.

Stocks are loved, and gold is hated. The economy is loved and common stocks are viewed as a form of long-term **savings.** Are we seeing signs of change, long-term change? Perhaps, but so far the evidence is subtle, very subtle, and certainly invisible to the great mass of US investors.

Finally, we should remember that major bear market bottoms are formed relatively quickly, but major bull market tops take time. This is, by any account, the greatest bull market in history, and as I've said before, when it tops out it will top out with probably the biggest and most extended top in stock market history. Blue-chip stocks (with their huge issues) are distributed slowly over time, whereas lesser stocks can reverse on a dime.

INVESTMENT POSITION: The bull remains in the box. My Primary Trend Index continues in an up-trend, BUT as I stated in the first section, the PTI must stay above its rising trendline.

If you're thinking of "investing" in an index fund, you might read and then re-read the first section of this Letter on VALUES. In a word, values are in "space-ville."

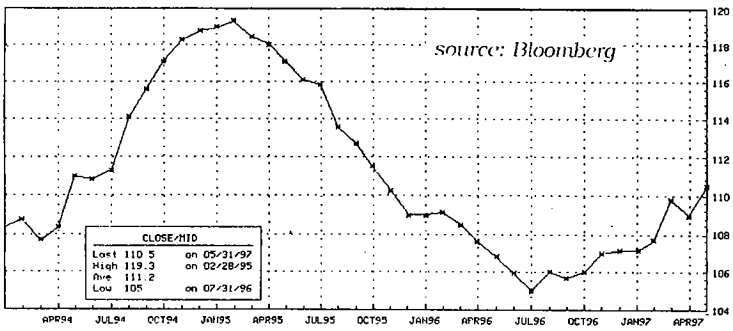
There's a scenario that I've been thinking about. It's that we're moving into a period where competition becomes vicious. Undeveloped nations are become developing nations and rapidly so. Pricing power (ability to raise prices) becomes even tougher than now. However, prices of items like housing, land, and some services continue to increase. The stock market stalls out and becomes disjointed with some sectors doing well and others doing poorly. In other words, the upside momentum of the bull market begins to subside. It's that phenomenon, ebbing momentum, that every sophisticated trader and investor is watching for.

The public tends to become more bullish, more enthusiastic, as a bull market climbs higher. Countering this tendency, Robert Rhea,

the great Dow Theorist of the 1930s, used to say, "Every 100 points higher is 100 points nearer the top." It's a concept worth considering.

The best and safest area turns out to be the high-grade debt market. Personally, I like T-bills and notes in the 1-3 year range.

NOTES & QUOTES: Probably the number one item on Wall Street's and the Fed's minds is inflation. For months economists have been marveling over the fact that inflation has been dormant. The dormancy may now be ending. The *Economic Cycle Research Inst.* runs a composite index of eight inflation-sensitive items, and in July of last year their Index turned up, indicating the beginning of a move towards inflation (see chart). And oh yes, none other than Paul Volcker thinks that inflation lies in the wings. Volcker is looking for an office in NYC, and I suspect the rise in office prices is shocking him.



In the meantime, economists and the press are waxing poetic over the "perfect economy." Euphoria reigns.

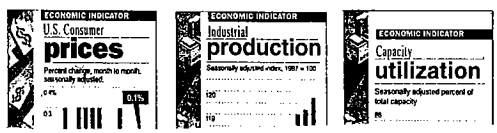
'It's A Picture-Perfect Economy'

Reports Show Slower Growth And The Absence Of Inflation

By DAVE SKIDMORE
Associated Press Writer

WASHINGTON — The sharpest decline in gasoline prices in six years helped keep inflation dormant in May. Consumer prices inched up a barely noticeable 0.1 percent.

Separate reports on industrial production and housing construction Tuesday showed economic



There is, however, one thing wrong with the current "perfect economy." It's that the US current account balance is heading for a $200 billion deficit (the current account takes in all exchanges, trades, bank transactions, sales of property, etc.).

How this is handled is very interesting. The US doesn't pay up as other nations do, by exporting goods; no, it settles accounts by paying its deficits with paper dollars, dollars which it prints as needed. The nations receiving these dollars (which are part of their reserves) turn around and buy US T-bonds or bills with their hoard of dollars. The latest count shows that foreign central banks now hold $643 billion in US securities (Japan owns $291 billion in T-bills and China owns $52 billion). A Mexican in a complaining letter to the *WSJ* (June 13) writes, *"The American Empire is blissfully enjoying the great privilege of issuing the world's reserve currency, in a world monetary system that has deteriorated to what can only be called a racket rigged in favor of the US."* This is a state of affairs, he adds, that *"will not last indefinitely."*

* *

National Debt: On the latest report the US national debt was $5.351 trillion. Exactly one year ago the debt was $5.141 trillion. This means that over the last 12 months the US has added $210 billion to the national debt or $403 million a week. Balancing the budget (assuming it happens) does not mean that the national debt will not continue to rise. Interest on the debt alone will see to that.

* *

Remember the great **tax reforms** the Republicans promised us? House Ways and Means Committee Chairman Bill Archer was going to abolish the IRS and bring in a flat tax. (Or was it a consumption tax?) Yeah, right. Said Ari Fleischer, spokesman for the Ways and Means Committee, "There is no guarantee, especially with Clinton in the White House, that we will be able to achieve a major change in the tax code." **Russell comment:** He's got that right. So instead of a fundamental change and simplification of the tax code, what we're getting is not simplification, not real change, but minor changes, favors to competing interests, meaningless political tinkering.

In the meantime Clinton wants to give us (with Ways & Means Committee approval) an $85 billion tax cut over five years or a paltry average of $17 billion a year. The Republicans would be better off downing this stupid offer, and making no changes at all (do it right or decline to be party to this tax nonsense).

* *

Europe's leaders are in love with the concept of a **single currency** (the Euro), but European's citizens hate the idea. Chief objectors are the French, who are suffering from major unemployment and are not ready to give up their state-sponsored benefits. Eighty percent of Germans are against the single currency, and they cringe at the thought of giving up their beloved D-mark for what they fear will be a marshmallow-soft Euro. With it all, the leaders keep pushing for the elusive Euro. **Russell thought** -- I'm less certain as weeks go by that the Euro will happen.

* *

Is **Microsoft** really trying to take over the world, as so many of its competitors believe? Microsoft's worry is that growth in software (which is its main business) is fated to slow down. Therefore, MSFT believes it has to expand its horizons, meaning getting into other businesses. In its heart, I believe that MSFT believes that it has to get into the "entertainment" business. In other words, although MSFT has the method for communicating, it feels that the real money is in **products that people want.**

So Microsoft has "Sidewalk," an entertainment and activity guide. MSFT has "Expedia," an on-line travel serve. It has "Car Point," details on all makes and models of cars, reviews, dealer's prices, etc. It has "Investor," which allows you to track stocks and mutual funds. There's "Cinemania," which reviews movies. "Music Central," is an online music store offering music clips, concert coverage, and reviews. Anyway, you get the idea -- MSFT wants to get into **all** avenues of entertainment and publishing (they have "Slate," an online magazine). It's no wonder MSFT is scaring the competition. But the key to MSFT's growth will be **entertainment** (latest move, a one billion dollar investment in cable giant Comcast, a deal that could bring high-speed Internet access to millions of US homes).

From the Assoc. Press, June 24: "For anyone unsure about Microsoft's quest to dominate the computer software business, the company's #2 executive may have put those doubts to rest. Touting the idea of 'Windows everywhere,' Steve Ballmer told 4,000 attendees of the PC Expo trade show that the company wants its operating software to run everything from bare-bones computers to industrial strength mainframes."

* *

Everybody wants to have a **Web site** on the Internet, but nobody has yet figured out how to make any money out of the Internet. So far, newspapers have incurred huge losses in dealing with the Net. Over a dozen major newspapers put out edited news on the Net, but as for me, I'd much rather read the news in length spread out in a newspaper. Now listen, I'm not knocking the Net, I think it's fabulous. I just don't use it a lot. Not so my wife, who's a corporate lawyer. She says the Net is very useful. If she wants to look up a recent SEC ruling, she get on the Net and in a minute or so she's got the info. She also uses E-mail extensively. There is one outstanding use for the Internet, and that's in retail buying. The Internet allows for vicious comparison shopping, everything from electric toothbrushes to autos. This is already proving to be a headache for retailers and it's going to be a lot more so. Online shoppers spent half a billion dollars in 1996 and the prediction is for $10 billion by the year 2000. But the Web accounted for only 2% of all retail sales last year, and 10% of those were for sex-related items. One expert states that 10 years from now the Internet

will rule retailing, and the stores will simply be a place to look at what you've ordered.

* *

Data Madness: According to a study by Pitney Bowes, "data overload," a product of E-mail, voice mail, fax and the Internet, is beginning to impair companies' efficiency and drive workers crazy. The survey shows 71% of those questioned felt overwhelmed by the sheer number of messages that they receive. It found managers on average receive and send 175 messages a day, with the telephone accounting for most, but 40% are in paper form.

* *

Items: California's port system just passed NYC as the biggest port in the US and the fourth biggest port in the world . . . According to the London *Financial Times,* the housing shortage in London is so severe that one out of five houses for sale now sells within a week . . . The median income for all Americans is $490 a week or $25,480 a year. Women still make only 75% of what men make . . . Who's the biggest employer of women in the US? Why it's none other than the US military which now employs 195,000 women, 13.5% of the US military . . . In 1994 there were a whopping 434,000 stock brokers in the US. By 1996 the army of brokers had grown 50% to 649,000. The old adage used to run, "Wall Street hires at the top and fires at the bottom."

* *

There's a town about 25 miles east of here called El Cajon. When I first came to San Diego, El Cajon was a little town. Now it's a city. But El Cajon always had a very Western "feeling" about it, and people in El Cajon eat the Western way. For instance, there's a restaurant called "Tyler's Taste of Texas," and it's open 24 hours. Breakfast at Tylers? You get three eggs accompanied by your choice of pork chops, steak, ham, breaded catfish, or smoked sausage plus biscuits and gravy and either grits, hash browns, home fries or spiced apples -- price $6.95. On Wednesdays and Fridays you get ALL the catfish you can eat plus corn on the cob, coleslaw, hush puppies, green onions, soup or salad and choice of potatoes. Now that's eating.

* *

Do you ever watch "Real TV" which comes on (in San Diego) at 6:30 just before the Seinfeld re-runs? It seems millions of Americans are walking around with camcorders, and when something cute or outlandish or dangerous happens, out comes the camcorder, and they shoot it. And the best or wildest of these are shown on Real TV. Shoot-outs, bar fights, holdups, dogs doing crazy things, car wrecks, boats crashing into grandstands, planes crashing, and much, much more -- you rub your eyes and ask yourself, are these things really happening on the planet Earth?

* *

The NY Fed's senior economist, Rae Rosen, said that NYC is adding jobs quicker than the rest of the nation, but most of the jobs are either temporary or low-paying. He said the NYC economy is "running on one engine -- Wall Street." He added that even though there are "niches" where companies can't find enough workers, firms are "not boosting wages yet." **Russell comment:** The big NYC employers used to be the garment industry and publishing. Now Wall Street is literally supporting NYC. When the next recession hits, NYC is going to see major unemployment (you heard it here first).

* *

The NYC boom has been a bonanza for Broadway's legitimate theater. According to *Daily Variety,* tickets to the NYC theater have hit a record $499 million during the 1996-97 season, a 16-year peak. So far in 1996-97 37 new shows have opened in NYC.

* *

Speaking of the NYC boom, this is from a recent editorial in the *NY Observer:* "For the first time in years, one no longer hears New Yorkers at dinner parties going on about how they want to leave Manhattan behind -- with all its stress, crime and expense -- to decamp to Westchester or some green place with great schools and no traffic problems. Instead, the momentum has swung back in the other direction. Manhattan is exerting a tremendous social, cultural and economic magnetic pull, not just on those living in the suburbs, but also citizens in places like LA, London and Paris. Simply put, no one wants to leave -- and everyone wants to come in. The city's rebounding economy and stunning crime drop are big factors in stemming the flow to the suburbs . . . so life has moved back to Manhattan. Even the elderly are forsaking Miami for midtown." **Russell comment:** It must be true. Judging from my trip to NYC a few weeks ago, half the population of the US has either moved to NYC or is visiting it. But it's also true that the City feels much safer -- I'd rather walk down midtown Manhattan at midnight than I would walk down midtown San Diego at midnight. Give it another 10 years, and the City could be a division of Disney.

* *

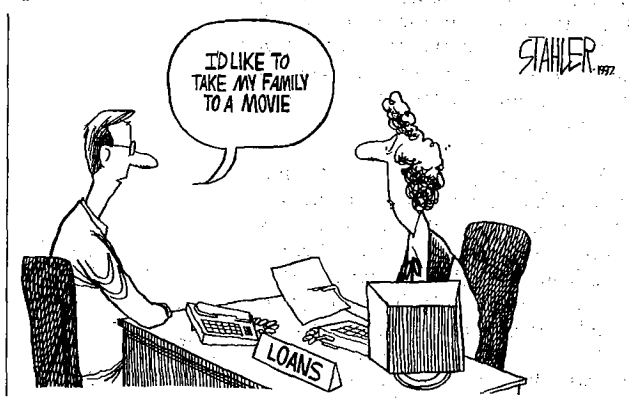
Money: From 1974 to 1994 the average cost of four years of tuition, room, board and fees at public universities rose from $11,032 to $25,785. Private school costs went from $25,514 to $64,410. Congress, noting the climb, now allows undergraduates to borrow up to $46,000 and graduate students to borrow up to $138,500. So far in this decade, students have borrowed (are you ready for this) -- $140 billion. Since '77 median student loan debt has leapt from $2,000 to about $15,000. *US News & World Report* (June 9) notes that Gen X-ers are finding that debt is a huge problem, but that they can't seem to get through life without it. **Russell comment:** Gad, when I was a boy people were scared to death of debt. Young couples didn't think of buying a house until they could put half the cost down in cash. Times have changed, now a couple gets married, immediately buys a house, and spends the rest of their lives in debt.

In debt all the way up to their nose rings

Between credit cards and student loans, gen X-ers find debt a major life force

BY JOSHUA WOLF SHENK

It's not just a figure of speech to say credit cards these days are being foundly alter the behavior of young adults. Required to borrow in order to finance their education, members of this generation have no qualms about using



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One thing you can count on is that in coming years international competition will become more intense. A new book has been published entitled "The Big Ten -- the Big Emerging Markets and How They Will Change Our Lives," by Jeffrey E. Garten. The good news, says Garten, is that his "big ten" will become so wealthy that they will be a growing source of demand. At the same time, they will present tough competition. Here are the coming Big Ten, as Garten sees them: along with China and Mexico, they are Argentina, Brazil, India, Indonesia, Poland, South Africa, South Korea and Turkey.

Another fascinating book is entitled, "Fast Forward, Growing up in the Shadow of Hollywood," by Lauren Greenfield. She writes, "Although trends come and go, especially among teenagers, I was intrigued by the role of the media as a homogenizing force." An *LA Times* book review states, "Los Angeles is, by and large, where that culture is created. Movies, TV, rap: the common language of American youth emanates from the city. Greenfield begins with her own high school, Crossroads, a private school in Santa Monica, and fans out from there. Via a linking chain of schools, proms and

music, the book looks at the lives of privileged white kids in Malibu and Bel Air, at white teenagers who wish they were black and at African-American and Latino near-adults, whose take on reality is smarter, tougher and more mature but no less materialistic and delusional . . . The kids in 'Fast Forward' are obsessed with money, the flaunting of it, the spending of it, the grubbing for it." **Russell comment:** It's a sign of the times. And I wonder, is this the new America or is it just a characteristic of the latter stages of a big bull market?

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The US unemployment rate is down to a very low 4.8% and businesses have added 640,000 jobs in the last three months. *Business Week* (June 23) notes that consumer buying accounts for two-thirds of the economy, but it warns that "when it comes to foretelling the immediate prospects for the gross domestic product, the consumer is not king." *BW* states that in four of the last five recessions, either employment growth or consumer spending continued rising even after the rest of the economy went south. The fact, says BW, is that almost all downturns are driven by swings in residential, business and inventory investments, not changes in consumer spending.

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The almost mindless parade of **mutual funds** continues apace. Last year 415 funds joined the crowd. This year, so far, 137 new stock funds have materialized (as of the end of April). If additions keep up this pace, there'll be another 400 new funds in 1997.

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Money magazine's annual survey of **America's best cities** lists the items that people are most interested in. Here they are in order: low crime rate, clean water, plentiful doctors, clean air, many hospitals, good schools, housing appreciation, low property taxes, strong state government, low income taxes, inexpensive living, recession resistance, and low sales taxes.

* *

Poor **Goldman Sachs**, they only made $610 million before taxes during the second quarter. Actually, second quarter profits for GS dropped 14%. Goldman is the Street's last major private partnership. Actually, Wall Street watches bellwether Goldman carefully, since Goldman is a good proxy for Wall Street profits, and the fortunes of the brokerage companies often lead the entire stock market.

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A fascinating op-ed piece by Thomas Friedman *(NY Times,* June 19) says that money-power interests now run the world. Therefore, if you want the "real" powers to show up you would invite Intel (whose chips are to the post-industrial revolution what coal was to the industrial revolution), Microsoft (because once it's done linking software, media, banking and the Internet, it will play a role in virtually every human interaction), Cisco Systems (which makes black boxes that tie the Internet together, and the more the Internet expands the more will Cisco), Citic (the state-owned Chinese trading company that has its finger in every piece of China's development, from airlines to telecom), and UNOCAL (the oil company whose foreign policy counts for far more in Afghanistan, Central Asia and Myanmar than the State Department's). This group would also include an anonymous currency trader, who would sit at the summit table trading on a computer screen, never saying a word to anyone else. He would represent the brutal and anonymous disciplinary force of the global market.

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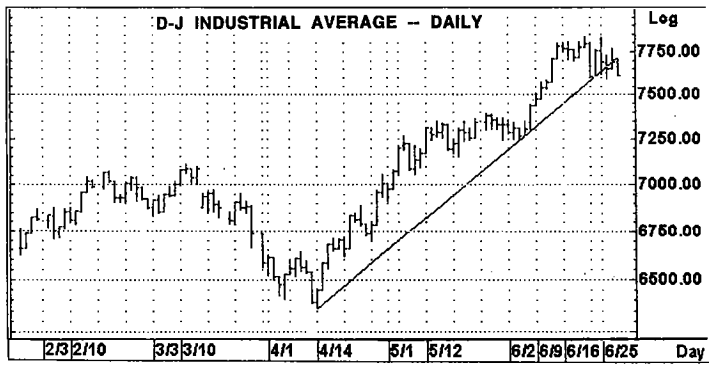
What's the Clinton "secret?" William Schneider in the *LA Times* (June 22) reveals it: "Voters were so happy with the status quo, they re-elected everybody and kept government divided. The last thing they wanted was a bold, risky new agenda . . . The message of the 1996 election was 'safety first.' Clinton gets his agenda from the voters. If they didn't have much of an agenda in 1996, he's not going to have much of one either. The American public has made a deal with Clinton. You don't bother us, and we won't bother you. Don't worry us with big agendas, and we won't get too upset over Whitewater and fund-raising and Paula Jones. The deal holds -- as long as the economy is good." **Russell comment**: He's got that right.



WATCH: Since April 14 the Dow has been climbing above a bullish trendline. However, on June 30 the Dow broke below this trendline, suggesting, if nothing else, that the upward momentum of the rally is ebbing. A close below 7604.26 would be clearly bearish.

GOLD: I discussed the long-term picture for gold on page 3. It does seem that between gold (the metal) and the gold shares, the bellwether or leader will be the gold stocks. For this reason I watch the XAU Gold/Silver average carefully. The recent closing low for XAU was recorded on June 24 at 94.73. Hopefully, that low will hold. On the upside, the first bullish target for XAU would be the 34-day moving average which now stands at 101. Bettering 101 would suggest that "something good could be happening" for golds. In the meantime, we wait and watch.

GLOBAL: The CRB Commodity Futures Index has dropped from an April 25 high of 254 to last week's low of 238. This index is quite heavily weighted with agriculturals. Foreign competition has hit the grains -- US exports of corn is down 28% from last year, wheat export in April are down 28% from a year before.

Which brings me back to a phenomenon that I've been talking about over the last few years. The world picture now is of **vicious competition in almost all areas.** Every nation in the world **wants to EXPORT.** As a result, the US will be faced with increasingly tough competition. The fact is that formerly "sleepy economies" such as China and India and Indonesia and Vietnam are awakening with a vengeance.

LATE NOTES: The **PTI** is now 79 points above its 89-day moving average. This is the **widest spread** ever recorded going back to when I started computing the PTI in 1971. The spread is now so wide that I cannot use it for sell signals: the reason is obvious -- if the PTI turned down it would take **too long** for it to break below its moving average (as you know, breaking below its moving average constitutes a major sell signal).

Note that I have drawn a rising trendline (page 2 chart) on the PTI. The PTI has held ABOVE this trendline since its base in late-April. However, on June 27 this rising trendline was **violated by a few points.** Whether this penetration of the rising trendline is an indication of a forthcoming trend change remains to be seen. **However, to resume its bullish trend, the PTI will now have to rise to a new high above 4939.**

I want to say this once more -- the hardest things I've had to do since I first conceived of the PTI in 1971 **IS TO BELIEVE WHAT IT WAS SAYING.** What's the PTI saying now? I repeat -- the PTI is telling us that in order for the bull trend to clearly resume, all the PTI has to do is rise to a new high. Will that happen? I have no idea. Remember, I don't tell the PTI what to do, it tells me.

Record highs were recorded all around on June 20. Those highs were **7796.51** for the Dow; **2756.62** for the Transports; **898.70** for the S&P 500. If they're bettered, the bull trend will be resumed.

NEXT MAILING: July 16, 1997